February 13, 2019

Tammy Baney, Chair
Oregon Transportation Commission
355 Capitol St. NE, MS #11
Salem, OR 97301

Dear Chair Baney:

As requested, Business Oregon reviewed Connect Oregon applications for three intermodal projects: Treasure Valley Reload Center (TVRC), Mid-Willamette Valley Intermodal Center (MWVIC), and the Oregon Port of Willamette's Brooks Intermodal & Transload Facility (POW).

The scope of Business Oregon's evaluation was limited to those items requested by Oregon Department of Transportation (ODOT) under Oregon Administrative Rule 731-035-0065 (5)(b), and did not include additional outside information or data. Consistent with our core work, Business Oregon considered the project's financial viability and broader economic feasibility. Business Oregon's evaluation did not include and does not contemplate the opportunity cost of the proposed investments. Thus, Business Oregon cannot state whether the benefits gained from investing public resources in other projects would or would not outweigh the potential benefits of the three intermodal projects.

Economic Impact Summary
Based on the information provided, Business Oregon believes that all three project proposals come with feasibility risk, but each one also offers potential for significant economic impact resulting from the proposed investments in the form of:

1. Direct, indirect, and induced economic output such as jobs created, follow-on investment, wages paid, payroll and income taxes paid, supplies purchased, etc.
2. Public benefits such as reductions in traffic congestion, road maintenance, and reductions in greenhouse gas.

It was beyond the scope of Business Oregon's review to determine the accuracy of the information provided or the assumptions used to project the outcomes. Therefore, the data and projected benefits outlined in each proposal was taken at face value.

In summary, as reported separately in the three proposals, the projected benefits of the three intermodal projects include:

- <u>TVRC</u>: $2,100,000 annually in economic output, $1,200,000 in labor income, and 16 jobs created;
- <u>MWVIC:</u> $2,900,000 to $4,700,000 annually in public benefits; and
- <u>POW</u>: 10-to-1 return on investment in public benefits over the next 30 years.

Assessments
Business Oregon assessed financial viability and project feasibility based on business models presented for the projects as described in the application materials. The approach used to reach conclusions for the projects is consistent with the practices of Business Oregon when reviewing project financing requests from counties, municipalities, ports, special districts, and private businesses. In addition, the assessments were further refined

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using the legislative framework and rules for these projects. Based on findings and conclusions of the viability and feasibility assessments at this time, Business Oregon is unable to recommend final approval for any of the projects reviewed.

Business Oregon believes all three projects require further development to address the deficiencies outlined below prior to receiving further consideration for funding of long-term capital assets.

Business Oregon has identified and documented areas of concern common among all three applications. Chief among the areas of concern, in approximate order of importance, are:

1. Operational Liquidity: Ultimately, the financial viability of each of the projects depends heavily on the volume of cargo shipped through the facilities. Volume equals revenue. In each case, the projected volumes and the timing to scale operations seem overly optimistic. A primary concern is that each of the projects will require continued subsidy (from railroads, ocean liners, jurisdictions such as the city and county in which operations are occurring, the state, or private companies and/or individuals) for long-term, on-going operations. While not required under the legislative framework established for these projects, none of the applications presented compelling long-term, sustainable business models that do not include ongoing subsidies to remain viable, including documented sources of operating capital as a liquidity backstop should the projects not be financially successful.
2. Interim Funding: None of the applications document evidence of a commitment of funds to bridge the gap between the start of construction and the reimbursement of eligible costs and expenses from the state.
3. Railroad Commitment: None of the applications document evidence of "Written concurrence from an authorized agent from the relevant rail entity(s) indicating agreement with the Project Plan and Proposal…."[1]
4. Land Commitment: The TVRC application did not document evidence that the required lands have been secured. The MWVIC application did not document evidence that the option to purchase required lands was current. The POW application reported 'options' to procure the needed lands but did not document evidence to that fact.
5. Public Agency Support: None of the applications documented evidence of support from all of the agencies that would need to approve the projects (e.g. Oregon Department of Environmental Quality).

Conditions of Award

In addition to the aforementioned deficiencies, Business Oregon suggests project development conditions for consideration by the Oregon Transportation Commission should they decide to advance any of the three projects. It is the opinion of Business Oregon that these conditions are necessary to increase the likelihood of project success and protect the investments of the state. These points are not meant to be all-inclusive; they are intended to highlight significant areas in need of risk mitigation and are applicable to all of the projects reviewed. These recommendations should be considered along with suggestions from ODOT, the independent reviewer, and other relevant parties.

- Obtain financial commitment: Provide evidence of a financial commitment of operational liquidity for the mid-term (five to seven years) to assure continuance of operations if the initial financial projections by the project sponsors prove to be overly optimistic.

[1] Information obtained after the application regarding POW's proposal suggests agreement from Portland & Western Railroad, though did not document service level commitments and pricing commitments needed for operational success.

- Provide interim funding: Provide evidence of available liquid funds to bridge the gap between the start of construction and reimbursement of eligible expenses and costs from the state.
- Establish operating agreements: Successfully conclude negotiations and provide executed operating agreements with the railroad operator(s) and transload facility operator that enable financial viability of the facility.
- Provide documentation of land commitment: Provide evidence that the needed physical real land property has been secured and evidence the land purchase price is within the project's budget.
- Perform Environmental Site Assessment(s): Perform a Phase I, and if necessary, Phase II, Environmental Site Assessment and provide the results to ODOT documenting any required mitigation or remediation steps and reflect these in an updated project plan, budget, and schedule.
- Provide updated projections: After a successful land purchase, executed operating agreements are provided and environmental assessments are complete, provide the state with updated financial projections and assumptions.
- Provide updated information on necessary local/regional transportation impacts and related infrastructure improvements: Update, refine, and provide to ODOT and relevant governmental entities information needed for a cost assessment for associated transportation and infrastructure investments necessary to adequately support the proposed operations and future local economic growth and development.
- Condition award: Condition award based on the project sponsor's successful provisioning of operational liquidity, interim funding, establishment of operating agreements, purchasing of land, environmental assessment(s), providing updated financial information, and updated information to ODOT for any anticipated, projected, and necessary transportation/infrastructure investments.

Conclusions

The potential benefits derived from the success of any of the three projects could result in significant benefit to the state. A successful facility could provide both the local community and state considerable direct, indirect, and induced economic benefits.

In closing, however, Business Oregon wishes to emphasize that financial success of these projects is not guaranteed and Business Oregon has considerable concern about each project's ability to succeed without long-term public investment or subsidy. This concern is based on Business Oregon's significant experience working with businesses development projects and financing public infrastructure projects. The aforementioned Conditions of Award recommendations are intended to guide the projects toward success, if moved forward to construction via this funding program. Business Oregon urges the Oregon Transportation Commission to also carefully consider the recommendations from the Tioga Group, as they identified similar areas of concern and offer many of the same caveats.

Thank you for your consideration. Please do not hesitate to call on me if Business Oregon can provide further assistance.

Sincerely,

Chris Harder
Director

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